

**Private Equity Challenge - HomeServe, the company which will drive home maintenance market**

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## Abstract

The purpose of the work is to develop an investment thesis for HomeServe plc. In the group part firstly it is presented a company overview followed by a study of the market.

Then, four value creation strategies are provided with their impact on financials. In the Capital Structure section, a breakdown of source and uses is presented. Lastly, returns and the exit waterfall are provided, together with a judgment on the most suitable exit option.

In the individual part, my contribution was to investigate deeper the company and its market, explaining why HomeServe is an attractive investment opportunity.

**Keywords:** Home Maintenance; Home Repairs and Improvement; HVAC; Private Equity; Investment Opportunity; Value Creation;

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# Group Part



# Company Profile

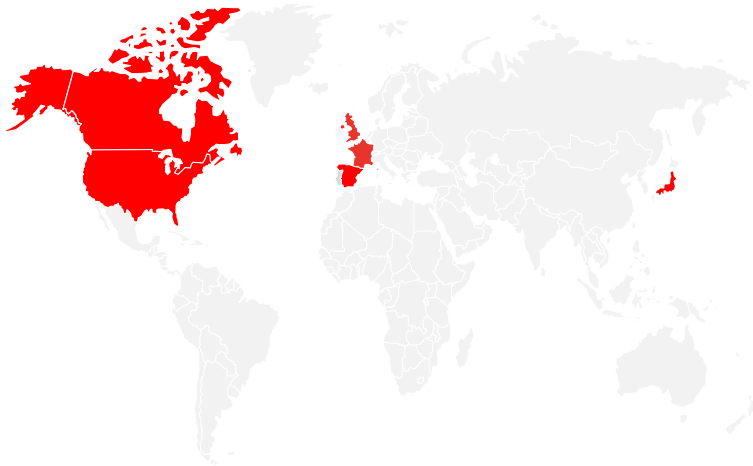
HomeServe’s vision is to become the world most trusted provider of home improvements and repairs

## About HomeServe

- HomeServe PLC (LSE: HSV) is a **home maintenance** services provider, which offers emergency services and insured repair solutions to households.
- **Founded in 1853** as The South Staffordshire Waterworks Company, it currently has **7.201 employees**.
- The company has its **headquarters in Walsall (GB)**.
- HomeServe sells its services either directly to homeowners or indirectly through tradespeople and insurance companies.



## Geographies



North America | UK | France | Spain | Japan

## Financial Results

In (£ m)	FY15	FY16	FY17	FY18	FY19	FY20
Revenues	584	633	785	899	1,003	1,132
COGS	(332)	(356)	(428)	(475)	(525)	(589)
EBITDA	111	123	154	197	227	270
Net Profit	56	61	74	95	108	105
NWC	11.4	9.9	1.6	11.5	49.3	92.7
Capex	(52.8)	(63.9)	(58.5)	(125.3)	(108.1)	(82.5)
Net Debt	63.5	168.6	260.8	237.3	304.7	509

## Management



**Richard Harpin (55)**  
Chief Executive  
27  
Years



**David Bower (48)**  
CFO  
15  
Years



**Tom Rusin (51)**  
CEO, Membership  
9  
Years

## Partnerships



- Homeserve’s strategy is based on long-term relationships with partners whose brands are related to its products (e.g. utilities and insurance companies)
- Network of 1,000 Affinity partners (utilities company, underwriters, heating manufacturers)
- Key partners’ benefits include earned commissions and reliable service for clients

# Global Business Lines

HomeServe reaches homeowners through two global business lines

	Membership	HVAC	Home Expert																										
Description	<ul style="list-style-type: none"><li>HomeServe sells <b>contracts</b> and <b>insurance</b> policies to homeowners to cover a range of <b>home emergencies</b> via subscription-based Membership services, acting as an <b>intermediary</b></li><li>HomeServe does not take any material insurance risk</li></ul>	<ul style="list-style-type: none"><li>HomeServe offers a <b>complete solution for the installation, repair, maintenance, and replacement</b> of heating, ventilation, and air conditioning</li><li>Complementary to the Membership business</li><li>Gives HomeServe new opportunities to sell Membership policies</li></ul>	<ul style="list-style-type: none"><li><b>Online marketplace to find checked and reviewed local tradespeople</b> for a broad range of home repairs and improvements</li><li>HomeServe <b>matches tradespeople with consumers</b> in their local area via the company's owned platforms Checkatrade (UK), Habitissimo (Spain), and eLocal (North America)</li></ul>																										
Revenue Stream <sup>2)</sup> & Contracted Customers	<table><thead><tr><th></th><th>Revenue Stream</th><th>Contracted Customers</th></tr></thead><tbody><tr><td rowspan="3">Policy Income</td><td>Intermediary commissions</td><td>Underwriter</td></tr><tr><td>Repair income</td><td>Underwriters and B2B contracted parties</td></tr><tr><td>Home Assistance</td><td>End consumer (Homeowner)</td></tr></tbody></table>		Revenue Stream	Contracted Customers	Policy Income	Intermediary commissions	Underwriter	Repair income	Underwriters and B2B contracted parties	Home Assistance	End consumer (Homeowner)	<table><thead><tr><th></th><th>Revenue Stream</th><th>Contracted Customers</th></tr></thead><tbody><tr><td></td><td>Provision of installation services</td><td>End consumer (Homeowner)</td></tr></tbody></table>		Revenue Stream	Contracted Customers		Provision of installation services	End consumer (Homeowner)	<table><thead><tr><th></th><th>Revenue Stream</th><th>Contracted Customers</th></tr></thead><tbody><tr><td></td><td>Website subscriptions</td><td rowspan="3">Tradespeople</td></tr><tr><td></td><td>Directory advertising fees</td></tr><tr><td></td><td>Lead generation</td></tr></tbody></table>		Revenue Stream	Contracted Customers		Website subscriptions	Tradespeople		Directory advertising fees		Lead generation
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End Consumer	Homeowners	Homeowners	Homeowners																										
Who decides what to do?	<ul style="list-style-type: none"><li><b>Insurance Company:</b> decides what is insured (e.g. pipelines, switches etc.) and the claims limit (number of claims and amount covered)</li><li><b>HomeServe:</b> HomeServe decides, what service or repair is needed</li></ul>	<ul style="list-style-type: none"><li><b>HomeServe:</b> The company decides on how to install, repair, maintain, or replace a device</li></ul>	<ul style="list-style-type: none"><li><b>Tradespeople:</b> Tradespeople decide on how to repair or maintain a device in the homeowner's house</li></ul>																										

Notes: <sup>1)</sup> HomeServe refers to Membership and HVAC as one business line; <sup>2)</sup> More details on each revenue stream in Appendix I  
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# Historical Financials

HomeServe's buy-and-build strategy and synergies between business areas improved margins

1

## Membership & HVAC

Since FY18, HomeServe considered revenue from Membership and HVAC as two separate business lines. Up to FY17 they were accounted under a common caption because HVAC wasn't considered a main growth driver for revenue.

2

## HVAC & Home Expert

FY19 and FY20 were significantly important for HVAC and Home Expert businesses. Pursuing the buy-and-build strategy, both business areas had an outstanding growth (81% and 78%, respectively).

3

## Revenue Growth

The end of the partnership with Endesa in May 2018 had a significant impact on the business lowering revenue growth. Additionally, HomeServe had been slow in acquiring new companies during the year (2018), causing an impact by -2% on revenues.

4

## Adjusted EBITDA

Compared to Adjusted EBITDA, the Net Profit growth is slower than expected due to the company income tax rate in the overseas countries which are higher than UK tax rate of 19%. Pursuing growth in North America, this effect will become more relevant in the future. EBITDA growth is not representative as part of it comes from the application of the new IFRS 16. According to the new legislation, operating leases charges that were previously shown within operating costs are now part of depreciation and interest charges.

New Business Lines Segmentation

Income Statement <sup>1)</sup> (in£m)	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20
Membership	549.8	566.2	597.2	753.7	840.2	910.6	972.9
HVAC	0	0	0	0	32.2	44.8	80.9
Home Expert	0	0	0	0	18.6	40.4	71.8
Other <sup>2)</sup>	23.9	24.2	42.2	38.5	16.6	15.1	14.5
Inter Segment	(5.4)	(6.2)	(6.2)	(7.2)	(7.9)	(7.3)	(7.8)
<b>Revenues</b>	<b>568.3</b>	<b>584.2</b>	<b>633.2</b>	<b>785.0</b>	<b>899.7</b>	<b>1,003.6</b>	<b>1,132.3</b>
<i>Growth</i>		3%	8%	24%	15%	12%	13%
COGS	(298.1)	(332.5)	(356.1)	(428.0)	(475.4)	(525.5)	(589.1)
<b>Gross Profit</b>	<b>270.2</b>	<b>251.7</b>	<b>277.1</b>	<b>357.0</b>	<b>424.3</b>	<b>478.1</b>	<b>543.2</b>
<i>Gross margin</i>	48%	43%	44%	45%	47%	48%	48%
Adjusted EBITDA	106.9	109.4	122.7	154.2	197.6	221.9	275.3
<i>Adj. EBITDA margin</i>	19%	19%	19%	20%	22%	22%	24%
<b>Net Income</b>	<b>10.0</b>	<b>56.1</b>	<b>61.6</b>	<b>74.4</b>	<b>95.9</b>	<b>108.3</b>	<b>105.8</b>
<i>Profit margin</i>	2%	10%	10%	9%	11%	11%	9%

**Notes:** <sup>1)</sup> Detailed Income Statement in Appendix II; <sup>2)</sup> For simplicity, the caption New Market is accounted in Other Revenue until 2017 since this caption appeared for the first time in 2018 on the income statement



# Historical Financials

HomeServe showed great ability taking decision to maintain profitability during the pandemic

1

## Net Debt

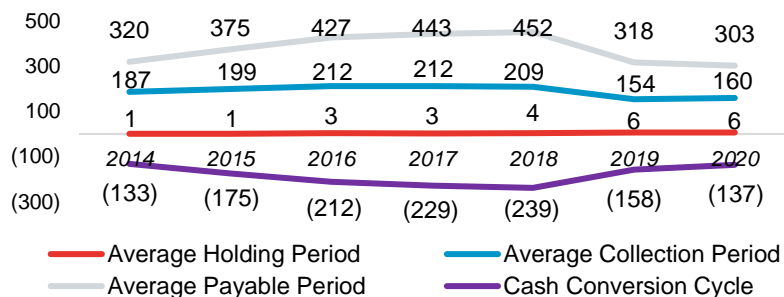
HomeServe's Net Debt have increased over the period from £41.8m in FY14 to £509m in FY20. However, Net Debt/EBITDA stays in the range targeted by the company (1-2x).

The increase of debt is partially offset by the increase of cash, needed mainly to exploit possible M&A activities which could arise. The only decrease of Net Debt/EBITDA in FY18 is due to a significant debt repayment of £ 226.5m.

2

## NWC (excl. Cash) & Cash Conversion Cycle

Inventories are low due to the nature of the business. NWC is mainly composed by the difference between payables and receivables. It has been increasing along all the years (except for FY17) due to a greater increase of receivables over payables, mainly between FY19 and FY20 (further details in Appendix VII). Further, the Average Payable Period experienced a decrease in the last three years (552 days (FY17) to 303 (FY20)). If this process continues in the future, it could affect HomeServe's profitability in the long run.



New Business Lines Segmentation






Balance Sheet <sup>1)</sup> (in £m)	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20
Cash and cash equivalents	96.2	74.7	54.2	46.2	57.8	72.6	131.2
as % of revenues	17%	13%	9%	6%	6%	7%	12%
NWC excl. Cash	(5.9)	11.4	9.9	1.6	11.5	49.3	92.7
Total Debt	138	138.2	222.8	307	295.1	377.3	640.2
Net Debt	41.8	63.5	168.6	260.8	237.3	304.7	509
Net Debt/EBITDA	0.39x	0.58x	1.37x	1.69x	1.20x	1.37x	1.85x
Cash Flow Statement <sup>2)</sup> (in £m)	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20
Adjusted EBITDA	106.9	109.4	122.7	154.2	197.6	221.9	275.3
Income Tax	(14.4)	(20.6)	(21)	(23.9)	(27.4)	(31.2)	(32.1)
Change in NWC Exl. Cash		(17.3)	1.5	8.3	(9.9)	(37.8)	(43.4)
Adj. Norm. Operating Cash Flow	92.5	71.5	103.2	138.6	160.3	152.9	199.8
as % of revenues	16%	12%	16%	18%	18%	15%	18%
CAPEX	(33.6)	(52.8)	(63.9)	(58.5)	(125.3)	(108.1)	(82.5)
as % of revenues	(6%)	(9%)	(10%)	(7%)	(14%)	(11%)	(7%)
Net acquisition of subsidiaries	(2.4)	(1.1)	(5.3)	(75.9)	(50.3)	(37.5)	(140.6)
Cash Flow from Investing	(35.5)	(58.4)	(69.2)	(158.8)	(174.5)	(158.4)	(217.6)
Bank and other loans <sup>1</sup>	13.1	3.4	82.7	73.5	(8.6)	73.7	181.8
Cash Flow from Financing	(22.9)	(30)	(53)	33.1	59.8	10.3	85.3

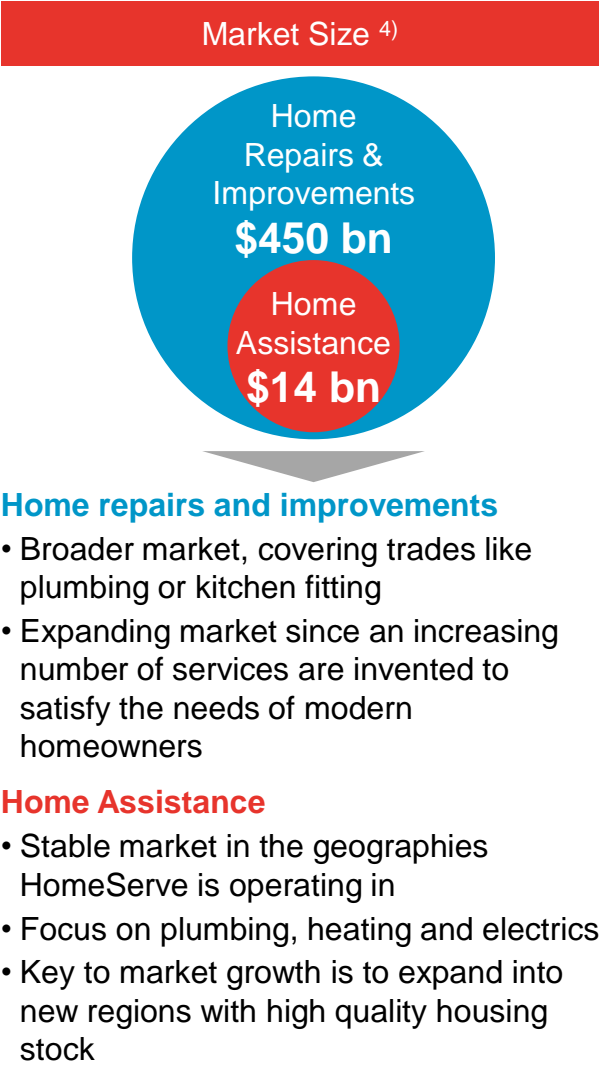
Notes: <sup>1)</sup> Detailed Balance Sheet in Appendix III; <sup>2)</sup> Detailed Cash Flow Statement in Appendix IV



# Geographical Overview, Market Size, and Growth Drivers

The different markets HomeServe operates in are growing at sound CAGRs, depicting huge opportunities for the future

Geographical Overview		
Geography	Description	Markets
 North America	<ul style="list-style-type: none"><li>Highest growth potential</li><li>HomeServe's most established HVAC business</li><li>Market leader in NA</li></ul>	<b>Home Repairs &amp; Impr.</b> 2020-2025 CAGR 5.5% <b>HVAC</b> 2020-2025 CAGR 6.7%
 United Kingdom	<ul style="list-style-type: none"><li>Most mature membership business</li><li>Only market with a bigger competitor (British Gas)</li></ul>	<b>Home Repairs &amp; Impr.</b> 2020-2025 CAGR 3.5% <sup>1)</sup> <b>HVAC</b> 2020-2025 CAGR 6.0% <sup>2)</sup>
 Spain	<ul style="list-style-type: none"><li>Market-leading claims business</li><li>Few competitors in the plumbing &amp; electric sectors</li></ul>	<b>Home Repairs &amp; Impr.</b> 2020-2025 CAGR 3.5% <sup>1)</sup> <b>HVAC</b> 2020-2025 CAGR 6.0% <sup>2)</sup>
 France	<ul style="list-style-type: none"><li>Well established Membership business with highest customer retention rates</li><li>Few direct competitors</li></ul>	<b>Home Repairs &amp; Impr.</b> 2020-2025 CAGR 3.5% <sup>1)</sup> <b>HVAC</b> 2020-2025 CAGR 6.0% <sup>2)</sup>
 Japan	<ul style="list-style-type: none"><li>New Market &amp; business development with innovation activities include a joint venture with Mitsubishi Corp</li></ul>	<b>Home Repairs &amp; Impr.</b> 2020-2025 CAGR > 4.5% <sup>3)</sup> <b>HVAC</b> 2020-2025 CAGR >6.0% <sup>3)</sup>



- Growth & Cost Drivers
- Growth Drivers**

1

Rise in the adoption of Smartphones

2

Increase in number of Households

3

Consumer Convenience for Home Services Needs

4

Increasing popularity of Market Places

5

Utilities and Manufacturers as Affinity Partners

6

Adoption of Membership Subscriptions
- Cost Drivers**

1

Labor costs

2

Acquisition of new customers

3

Platform maintenance expenses

4

Price of supplies

Notes: <sup>1)</sup> CAGR refers to European CAGR; <sup>2)</sup> Reflects adjusted global CAGR of 4.5%; <sup>3)</sup> Figures reflect APAC Market growth; <sup>4)</sup> Market size estimates incorporate the UK, US, France and Spain  
Sources: HomeServe, Global Market Insights, Business Wire, Prescient & Strategic Intelligence

# Competitive Market

Highly competitive market with few well-established players

## Porter's 5 forces

### Threat of new Entrants

- High threat of new entrants in the marketplace sector
- However, establishing an equal market presence and reputation is a challenge for new entrants in the Home Maintenance sector

Impact



### Power of Suppliers

- As there are several available suppliers, they have relatively low power



### Power of Buyers

- Buyers intend to pay the lowest price possible for the best offerings available
- This pressure might grow when comparing trades online



### Substitute Services

- Relatively few substitute services available
- High switching costs for customers as they do not know the quality of the substitute service yet














### Competition in the Industry

- HomeServe's industry is composed of few well-established players with strong competition
- Low switching costs to competitors due to similar services
- However, HomeServe's approach to form partnerships with utility companies is unique



● Low ● Medium ● High

## Competitors Analysis

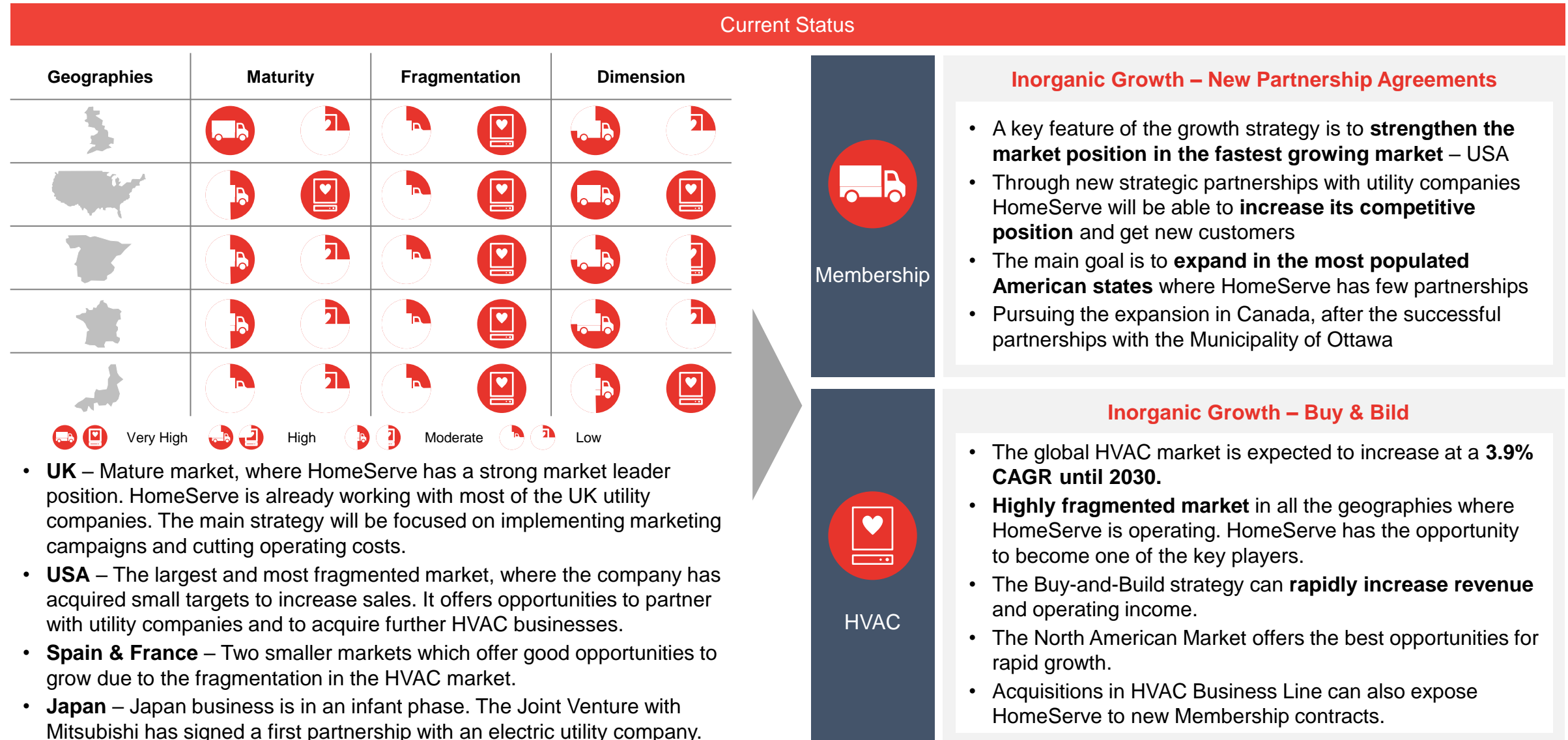
Company	LFY Sales	Geographies	Marketplace	Membership	Brands
ANGI HOME SERVICES	\$ 1,397.6m	US, Canada, Germany, The Netherlands	✓	✓	       
amazon	\$ 321,782m	US, UK, UAE*	✓	✗	
British Gas	£ 8,741.8m	UK	✓	✓	
frontdoor	\$ 1,418.0m	US	✓	✓	    
AMERICAN WATER	\$ 3,690.0m	US	✗	✓	
enercare	\$ 1,310.5m	Canada, US	✗	✓	
ARS RESCUE ROOTER	\$ 1,903.0m	US	✗	✗	
JBR JAPAN BEST RESCUE SYSTEM	\$ 112.16m	Japan	✗	✓	

\* Refers to Amazon Home Services

Sources: Company Websites, Verified Market Research, Capital IQ

# Expanding into existing markets via new partnerships and acquiring businesses

Strong focus on large and promising markets such as North America and Japan



# Strategy to enter new markets

Entering the new geographies through a Joint Venture and signing collaboration agreements with existing and new partners will generate strong revenue

## Joint Ventures & Partnerships

### Overall Strategy and Execution

- **Joint Ventures:** A proven way to enter new markets is by forming a Joint venture structure such as that employed with Japan. It diversifies risk, minimizes investment, and reduces costs by 50%.
- After a successful formation of a Joint Venture and having set foot in the new market, HomeServe can find further **companies to partner with**.
- The expansion of the **HVAC business** will be carried out through subcontracting HVAC businesses.
- Close collaboration with the already existing **International development team** of HomeServe.
- **Benefits for partners** include: Commissions for every policy HomeServe secures through them and enhanced service for their customers.
- Expanding the **Home Experts platform** in these countries

### How can HomeServe access their customer base?

HomeServe uses the partners to **contact customers**:

- Partners offer HomeServe's services in their **call centers** or **affiliate links** on their webpages
- Direct **mail campaigns**
- Transferring **prospect sales calls** to HomeServe

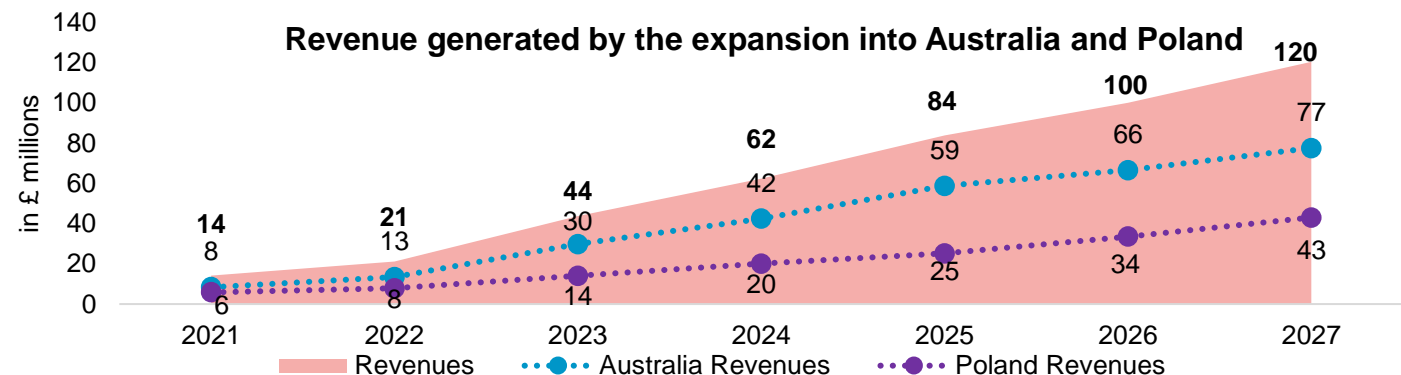
## Strategy Rationale

- **Australia** and **Poland** show a high diversity of companies that HomeServe is already in a partnership in other countries.
- Thus, pursuing the strategy of entering a new market by forming a joint venture and partnerships, Australia and Poland seem to be a **good fit**.



## Expected Results

- **Revenue growth** by £ 120m and **increasing household base** by 785k by 2027
- More **diversified revenue split** reducing UK's and North America's share of 33% and 38%, respectively
- **Broader geographic reach**
- Increased **global presence** and **reputation**



# Unification and Consolidation of Home Experts Platforms

The consolidation of HomeServe's three platforms will result in higher brand awareness and cost cutting

## Current Status

Currently, HomeServe owns 3 platforms operating under 2 different business models, the subscription-based model and the lead generation model.

- **Checktrade:** subscription-based business in the UK, meaning that tradespeople pay a monthly fee to be displayed on the platform. Homeowners choose from a directory of checked trades. This model has proven to be ideal for substantial home improvement projects.
- **Habitissimo:** lead generation-based business in Spain, Italy, Portugal, and LATAM. Homeowners post their job listing and up to 4 tradesmen can bid for the lead. Tradespeople pay for each lead.
- **eLocal:** lead generation-based model in the US. eLocal generates leads mainly via calls from consumers with HomeServe call center workers matching the consumers to professionals.

## Strategy Rationale

The consolidation of the 3 platforms will help to:

- **cut infrastructure and operational costs**
- **enhance HomeServe's brand awareness** on a global view is perceived, attracting customers
- **optimize marketing strategy**, enable **data-rich marketing** as well as eventually lower both **marketing payback period** (currently at 9-18 months) and marketing costs as % of revenue
- **deliver exceptional customer service** by focusing on value-adding projects
- **optimize** human resources and reduce HR related costs
- **implement** a more **effective distribution strategy**



## Execution & Objectives

- **Achieve a stronger foothold in existing markets** by consolidating the three platforms.
- **Entering new markets** after the completion of a successful beta-phase (~3-4 months)
- Moving towards a subscription model that **combines the Directory and Lead Generations model** with the Directory model taking the majority: Homeowners can choose from a directory of trades for substantial home improvement projects. The lead generation model will mainly be used for smaller jobs. → This combination gives HomeServe **more certainty** as membership fees are recognized evenly over the term of contract.
- The call assistance model (eLocal model) will eventually be **replaced by a direct listing** done by the homeowner in the platform.

## Expected Results

- **Increased Gross Margin** in Home Experts business line from currently 25.4% to 39.6% by reducing **infrastructure, maintenance, and operational costs by approx. 20%**. The impact on the overall Adjusted EBITDA amounts to 1.%, from 24.5% to 25.5%
- Once HomeServe operates the consolidated platform, it is **easier to launch the platform in other countries**
- HomeServe will be able to create a platform with a **more attractive user interface** thanks to more resources and investments available for one single platform



# Digitize Contact Centers

Investments in Call Center digitalization will increase profitability margins

## Current Status

- HomeServe has **local call centers** in each country to handle claims and inquiries. This requires a diverse **international workforce**, around 2k contact center agents.
- Estimates confirm that the real cost of a contact center agent to operate is around £ 25/hr – including key figures like salary, equipment, and space.
- This involves huge costs to keep the high-quality service provided by HomeServe—£100 m spent to run contact centers.
- HomeServe has recently implemented a CRM system (Pegasystem), which helped to increase the quality and the income per customer as well as increasing the service quality.

£ 25/hr  
Agent Costs

c. £ 100m  
Contact Center  
Costs

## Rationale

- Service providers can reduce contact center costs by up to 40% and increase customer satisfaction by fully implementing 4.0 technologies.
- The time per call can be **reduced up to 35%** while **increasing efficiency and effectiveness**.
- Moreover, deeper use of data analytics can **increase product customization**, exploit cross-selling opportunities, and match the “individual” customer character with the “individual” agent character, strengthening rapports and increasing customer satisfaction.

-25%  
Contact  
Center Cost

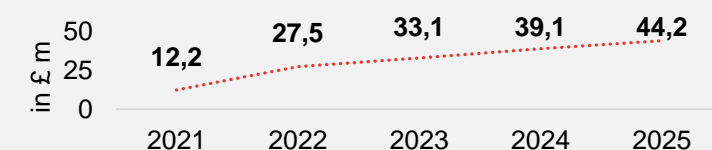
5-10%  
Customer  
Satisfaction

5-10%  
Revenue per  
Customer

## Strategy

- A key role will be played by virtual assistants (e.g. Alexa, Google Now, or Siri) and by virtual agents who can care about follow-up work, so that the human agent is available for the next call. There will be fewer agents, but with higher qualifications and focus on more important tasks.
- Introducing chat bots and robotic process automation (e.g. monitor/supervise and optimize agent performance so that coaching agents can spend more time on coaching activities), which will have a relatively low price and will **reduce the time per call by 30-60s**.
- **Investing in data analytics for marketing** and contact center operations from the first year on, attracting new customers and maintaining higher profits.
- In 2022, HomeServe is expected to save 19% of its COGS.

Cost savings from Call Centers <sup>1)</sup>



**Note:** <sup>1)</sup> Depicts the savings per year in comparison to call center staff costs without the digitization strategy.

Sources: BCG, McKinsey

Nova School of Business and Economics | Private Equity Challenge: HomeServe PLC | Group: F | January 2021

# Financials Forecast

Adjusted EBITDA Margin is mainly increasing due to the consolidation of Home Experts platforms and the digitization of call centers, resulting in a sound Free Cash Flow

Business Line	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	CAGR 20-25
Membership	840	911	973	1,085	1,190	1,345	1,525	1,690	1,891	2,134	11.7%
HVAC	32	45	81	173	269	378	484	592	616	640	48.9%
Home Expert	19	40	72	108	162	226	294	323	356	391	35.1%
Other & Intersegment	9	8	7	7	7	7	8	8	8	8	3.0%
<b>Total Revenue</b>	<b>900</b>	<b>1,004</b>	<b>1,132</b>	<b>1,373</b>	<b>1,628</b>	<b>1,957</b>	<b>2,310</b>	<b>2,614</b>	<b>2,871</b>	<b>3,173</b>	<b>18.2%</b>
Gross Profit	424	478	543	663	793	951	1,122	1,272	1,397	1,545	18.5%
<i>Gross Margin</i>	<i>47.2%</i>	<i>47.6%</i>	<i>48.0%</i>	<i>48.3%</i>	<i>48.7%</i>	<i>48.6%</i>	<i>48.6%</i>	<i>48.6%</i>	<i>48.7%</i>	<i>48.7%</i>	
SG&A	(228)	(251)	(273)	(388)	(376)	(452)	(534)	(604)	(663)	(733)	17.2%
<b>EBITDA</b>	<b>197</b>	<b>227</b>	<b>270</b>	<b>275</b>	<b>417</b>	<b>499</b>	<b>588</b>	<b>667</b>	<b>734</b>	<b>812</b>	<b>19.9%</b>
Exceptional items	-	5	(8)	(65)	-	-	-	-	-	-	
<b>Adjusted EBITDA</b>	<b>197</b>	<b>222</b>	<b>277</b>	<b>340</b>	<b>417</b>	<b>499</b>	<b>588</b>	<b>667</b>	<b>734</b>	<b>812</b>	<b>19.2%</b>
<i>Adjusted EBITDA Margin</i>	<i>21.9%</i>	<i>22.1%</i>	<i>24.5%</i>	<i>24.7%</i>	<i>25.6%</i>	<i>25.5%</i>	<i>25.5%</i>	<i>25.5%</i>	<i>25.6%</i>	<i>25.6%</i>	
Change in NWC	(10)	(38)	(43)	(7)	(44)	(52)	(62)	(65)	(32)	(38)	
Tax	(29)	(34)	(36)	(25)	(34)	(42)	(50)	(56)	(59)	(56)	
Maintenance Capex	(71)	(60)	(21)	(70)	(83)	(99)	(117)	(133)	(146)	(161)	
Expansion Capex	(54)	(48)	(61)	(75)	(114)	(136)	(160)	(182)	(200)	(222)	
<b>FCF to Firm</b>	<b>32</b>	<b>43</b>	<b>115</b>	<b>163</b>	<b>143</b>	<b>170</b>	<b>198</b>	<b>231</b>	<b>297</b>	<b>335</b>	<b>15.0%</b>

## Drivers

### Revenue Drivers

- **Membership:** Revenue is mainly driven inorganically due to entering new markets (Australia & Poland) and a plan of new strategic agreements with utilities in areas where HomeServe has a low penetration
- **HVAC:** HVAC revenue is driven by increasing demand and new regulation combined with the acquisitions of HVAC businesses, especially in the US.
- **Home Experts:** Home Experts revenue growth is mainly driven by organic growth as the on-demand for home services are increasing by a CAGR of c.50% until 2022.

### EBITDA Drivers

- **COGS:** Gross Margin Improvement is mainly driven by a slight improvement of 0.4% in the Gross Margin of the Membership & HVAC business and the strong Home Experts Gross Margin improvement from 25.4% (FY20) to 36.9% (FY25) due to platform consolidation.
- **SG&A and Exceptional Items:** Digitization of call centers is expected to reduce staff costs by 19%. SG&A costs are further decreasing due to cost synergies evolving from HVAC acquisitions. Exceptional items in 2021 include two non-recurring costs, the consolidation cost of Home Experts platforms and the cost of the call center digitization.

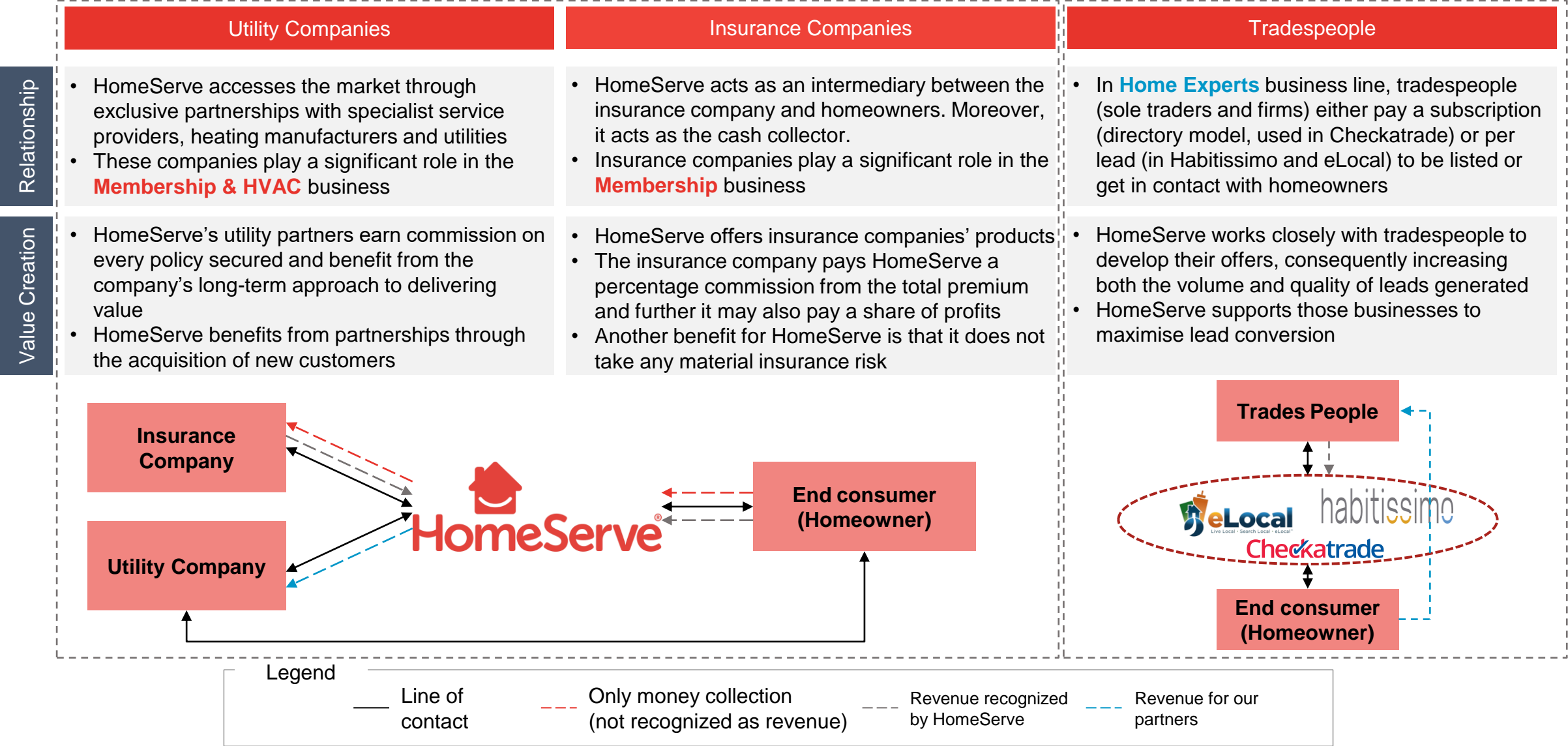


# Individual Part



# Business Model and Main Stakeholders

HomeServe's business model is based on solid relationship with its Affinity Partners for whom it is an important added value

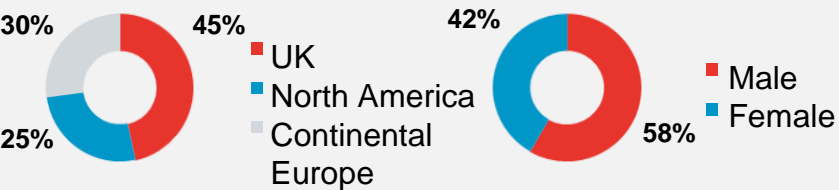


# Strategy Overview


HomeServe's purpose is to make home improvements and repairs easy

## Human Capital


HomeServe employs 7,201 people globally as of 31<sup>th</sup> March 2020. Over **6,200** are employed in their **Membership and HVAC** business and around **800** in Checkatrade, eLocal, and Habitissimo.




## Customer segments









**Insurance minded** (30%) want a peace of mind and avoid dealing with house problems and unexpected bills.




**DIYers** (20%) have a basic knowledge to solve the majority of home problems on their own.




**Home improvers** (50%) prefer dealing with problems when they arise.







Membership



HVAC



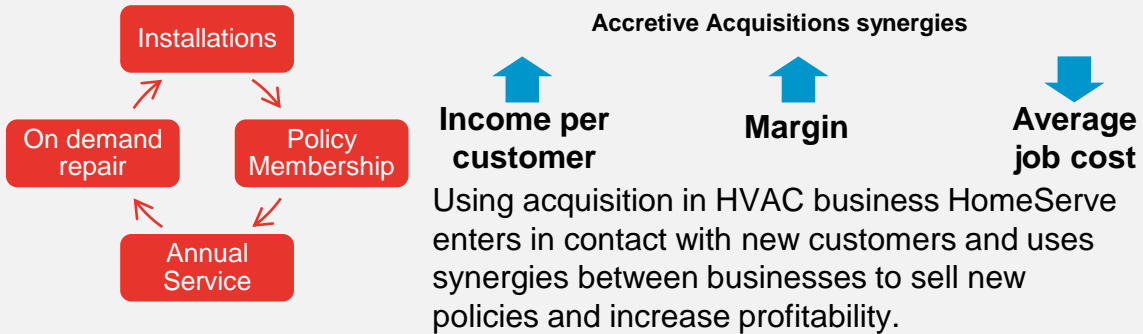
Home Experts



Disruptive Model

- Considering, where consumers spend time and money in other industries there is a big potential ready to move online.
- Moving customer services online will generate opportunities to drive efficiencies by handling job costs and claims better and targeting non-insurance minded people who account for the largest market portion.

## Business & Growth Strategy




## Marketing



Acquisition costs Y1

Year	Marketing Campaign
Y4	Marketing campaign targets a 3-year payback (USA 2).
Y3	HomeServe uses data-rich marketing across channels (e.g. telephony, direct mail)
Y2	Signing new partnerships increases the customer base and provides new marketing opportunities
Y1	1.2m gross new customers were added by marketing campaigns in FY20 (1.2 in FY19)



Challenges

- The company decided some course corrections, such as the withdrawal from Italy. On 1<sup>st</sup> August 2019, it sold 49% of its Italian associate. The entrance in new markets could become more and more difficult.
- Customers have been slow in adopting some products. LeakBot assets have been impaired for £12.9m.

# Key Figures, Revenue, Costs and Growth Drivers

HomeServe’s revenue growth along years was delivered both organically and inorganically

## Key Figures

£ 4,109m

Market Cap

7%

CAPEX/  
Sales

£ 1,132m

Revenues

13%

Sales  
Growth

£ 275.3m

Adj. EBITDA

24%

Adj. EBITDA  
Margin

£ 93.4m

FCFF




9%

Net Margin

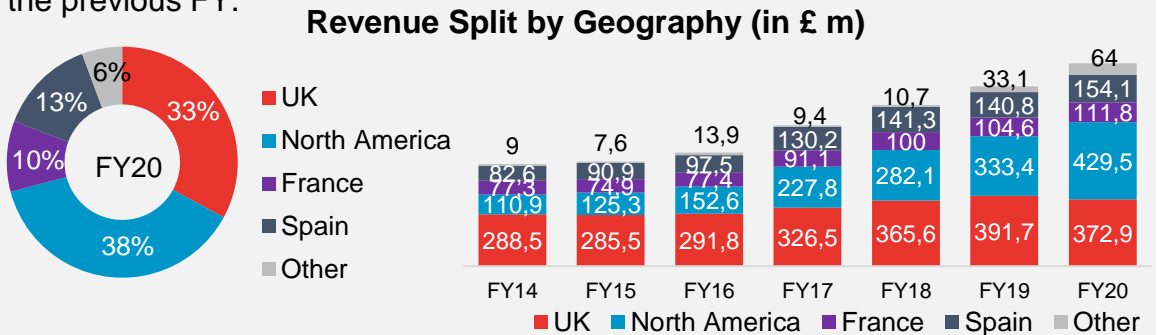
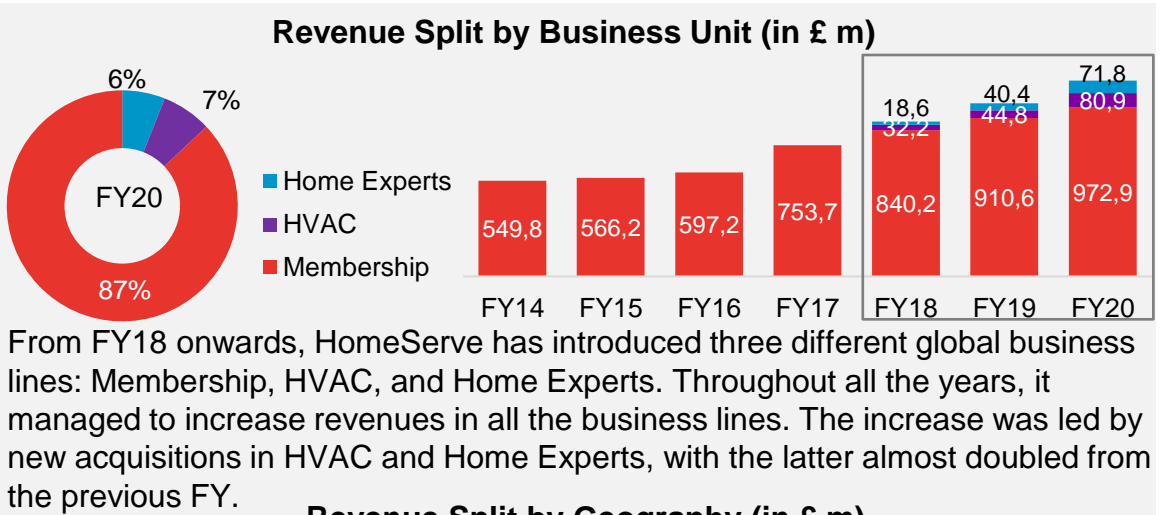
The increase by 13% in revenue was mainly driven by the strong growth in Membership & HVAC business line (delivering revenue growth of 10%) and new partner signings mainly in North America (revenue growth of 25%). Here, HomeServe signed two major partners: Alabama Power (1.5 m households) and the municipality of Ottawa. This development offsets the divestiture of the Italian Joint Venture with Edison Energia and Assistenza Casa.

## Growth Drivers

Due to the nature of the business HomeServe plc has historically derived his growth mainly **inorganically** through **1) M&A deals 2) new partnerships agreements**. The company also grows organically through **3) marketing strategies 4) synergies between business lines (cross-selling policies)**.

Business lines	Organic Growth	Inorganic Growth
<div><div></div><div></div></div> <div>MembershipHVAC</div>	<ul style="list-style-type: none"><li>Marketing strategies</li><li>New Customers through synergies between BU</li></ul>	<ul style="list-style-type: none"><li>Developing New Partnerships</li><li>Continuing M&amp;A Activity</li></ul>
<div></div> <div>Home Expert</div>	<ul style="list-style-type: none"><li>Building a new platform – Directory Extra, using a blended BM.</li></ul>	<ul style="list-style-type: none"><li>Building out its network of trades through new partnerships agreement</li></ul>

## Revenue Split



# SWOT analysis

HomeServe presents many strengths and opportunities for the future

- Dominant position, helping the company to maintain its competitive advantage and to increase its visibility.
- Strong track of records in maintaining long-term relationship with partners whose brands have affinity with HomeServe's products. In 2020, new partners generated 20% of revenues.
- Enhanced performance across business divisions which enabled to increase the overall result of the firm.
- Highly cash generative business which generates FCF of £93.4m in 2020 thanks to a capital light model which benefits from a business growth.

## Strengths

## Opportunities

- Strategic acquisitions which helps the company to engage new customers and expand its territorial coverage.
- Acquisition of Vincodo, a digital advertising agency, will enhance HomeServe's in-house marketing.
- The construction market growth, estimated between 4-5% globally, will generate new homeowners and new possible customers.
- Strategic agreements like that one with Mitsubishi will increase the company's market presence and operations.
- Compared to other industries there is a big upside potential regarding the amount of time and money spent by customers online.

- Increasing in trade receivables which affects company's profitability and would affect the ability to meet short-term obligations.
- Slow adoption of smart leak technology which caused the impairment of LeakBot assets for £12.9m.

## Weaknesses

## Threats

- Company's results could be affected by changing in customers spending habits.
- The buy-and-build strategy followed by HomeServe in HVAC could lead to overpaid or low cash generative transactions.
- Regulation risks – Changing in labor laws could affect company's ability to find qualified personnel. Furthermore, external factors such as the availability of personnel in local markets, could affect profit margins.
- Intense market competition forces HomeServe to deliver highly valuable services to customers to maintain its competitive advantage. Inability to compete successfully in the future could affect financial performance.

# Growth Drivers

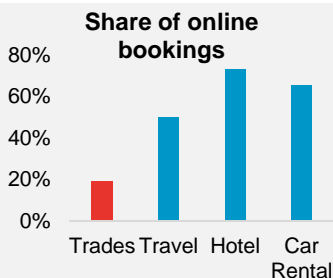
The growth of the Home Services Repairs & Maintenance is driven by several factors

## Rise in the adoption of Smartphones

- Currently, the **penetration of smartphones** in **developed economies** and developing economies is **80%** and **82%**, respectively. When considering underdeveloped economies, the worldwide penetration share shrinks to 60%. This number is expected to reach 79% by 2025.
- Smartphones provide the opportunity to pay and purchase services in the market. In 2018, **60% of global ecommerce sales** took place via **smartphone**. The number is expected to increase considering Generation Z is more prone to use smartphones to purchase products and services.

## Increasing popularity of Market Places

- In 2019, 50% of global ecommerce sales were made through online marketplaces and this percentage is expected to grow dramatically over the next 5 years.
- Research shows homeowners have both safety and job quality concerns about tradespeople.
- A Market Place where homeowners can compare tradespeople and access the reviews of past customers would alleviate their worries.



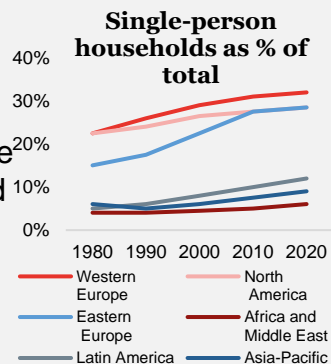
## Increase in number of Households

The drivers of the increase in number of households are:

1) Immigration in developed countries and growth of native population in underdeveloped countries

2) Single-person households becoming more popular

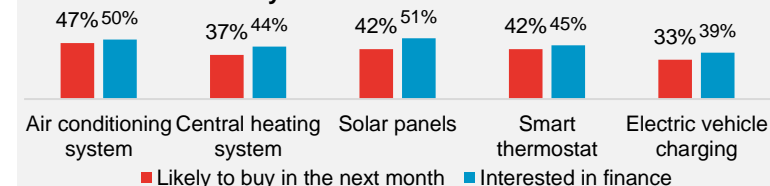
An increasing rate of urbanization in non-developed economies will be another market driver. Urban and skill-specialized population are more likely to pay for home services.



## Consumer Convenience for Home Services Needs

- Homeowners are now more likely to purchase home appliances and systems, especially new HVAC systems, smart home appliances and electric vehicle charging stations. This results on a higher need for repair services in the upcoming years.

### Likelihood of purchasing/financing home appliances and systems in the next 12 months



## Utilities and Manufacturers as Affinity Partners

- Affinity Partners are manufacturers and utility companies that partner up with home services providers.



### Home Services Providers

- Access to utilities and manufacturers' customer base
- Easiness of operating under the utility's brand name



### Manufacturers and Utilities

- Opportunity to engage with customers and improve brand image
- Higher customer satisfaction leads to increased loyalty

## Adoption of Membership Subscriptions

- The subscription model has become popular among the younger population during the past few years (i.e. Netflix, Spotify). This increases the likelihood of them hiring a membership service.
- Currently, the gross of the customer base is composed by the elderly population.
- Researches show that homeowners frequently fall short of money to cover house breakdowns.
- According to HomeServe survey, around **70% of people surveyed claimed to be willing to buy home assistance**.

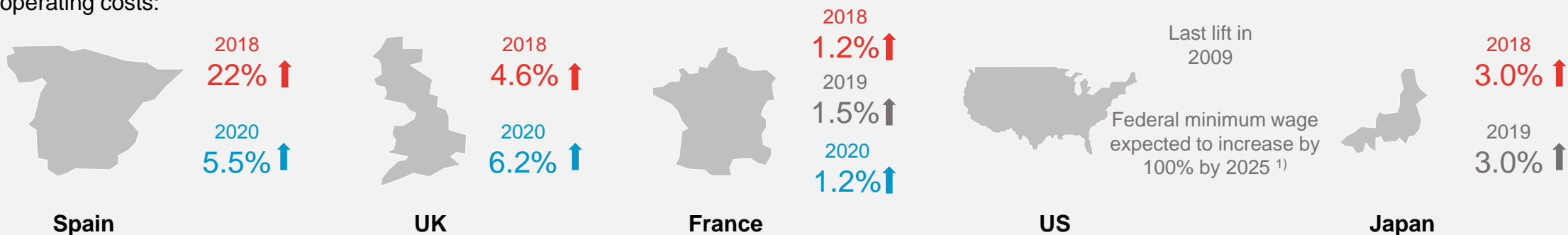


# Cost Drivers

Wages, customer targeting, online platform maintenance and supplies are the main costs drivers of Home Services companies

## Labor cost

- Approximately **one third of operating costs of Home Services companies are labor related**.
- Labor costs are **subject to both inflationary and political factors**. Some countries might decide to increase minimum wages, which would lead to an increase in operating costs:



## Acquisition of new customers

- The **acquisition of customer books is the major marketing cost**.
- In order to access these customer books, Home Service companies **purchase them mainly from utility companies**, normally paying a commission for each customer gained or a fee for a specific quantity of customer data.

## Platform maintenance expenses

- Platform maintenance expenses** includes software maintenance and related licenses to guarantee the correct functioning of the marketplace's websites.
- Due to the increasing trend of homeowners using online services to search for home services, the **resources employed on the maintenance and improvement of website and CRM will go up, even though the cost per online customer will decrease**

## Price of supplies

- Home Services companies are dependent on being able to **access raw materials, equipment, and replacement parts** at affordable prices.
- Furthermore, a **swift in consumer preferences towards replacements** instead of repairs would increase the companies' operating costs – since often the gross margin of repair activities is higher than the gross margin of replacements.

**Notes:** <sup>1)</sup> US House of Representatives signed a proposal to lift the federal minimum wage from \$7.25/ hour to \$15/hour. However, some states already have set minimum wages over the federal minimum wage.

Sources: Reuters, Country Economy, US Department of Labor, Frontdoor Annual Report 2019



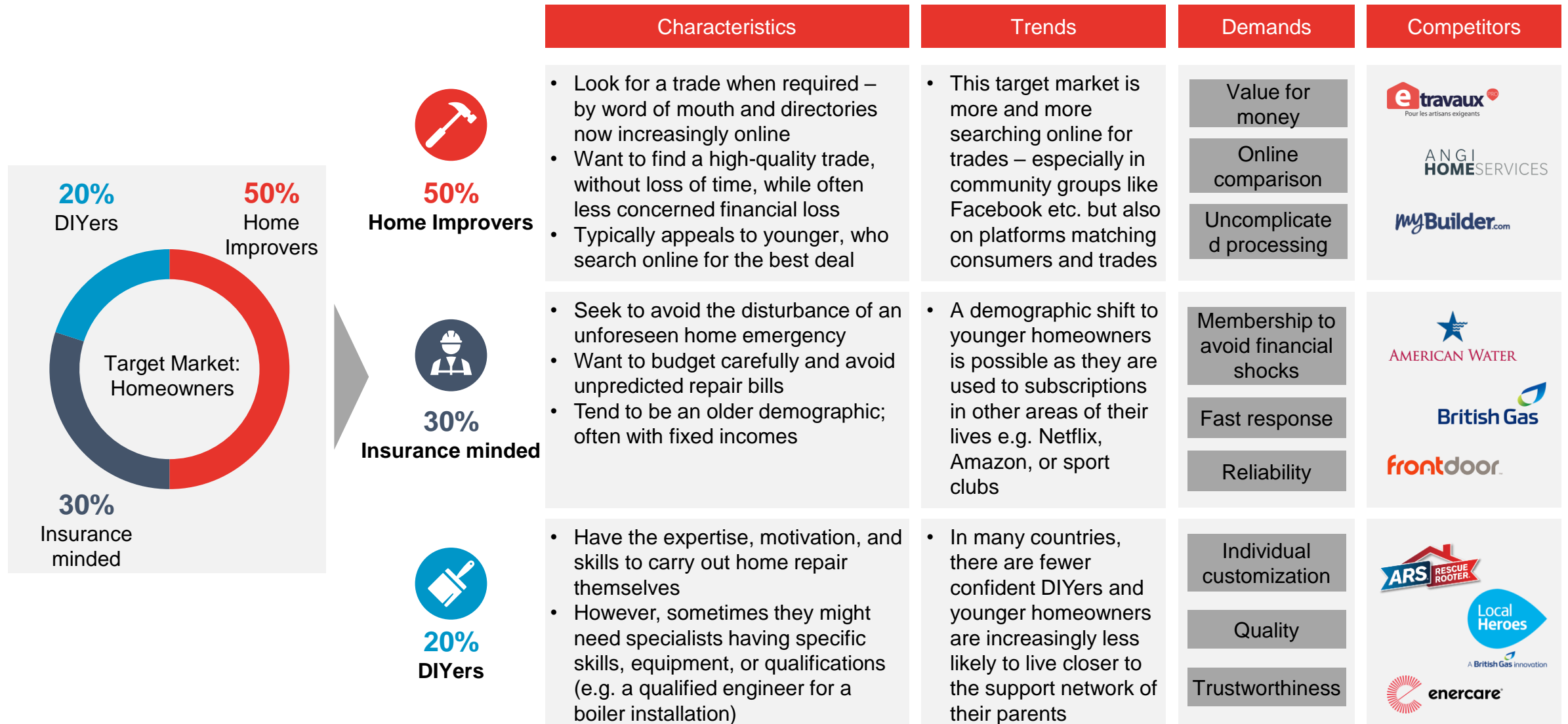
# Subsectors affecting the Home Repairs and Improvements Market

The increase of different subsectors can affect the overall growth of Home Repairs and Improvements Market

	HVAC	Home Improvement	DIY	Smart Home																								
Key facts	<ul style="list-style-type: none"><li>The global HVAC market is projected to reach ca. <b>\$303 bn by 2025</b>, based on a <b>CAGR of 3.9 %</b></li><li>The commercial market is expected to grow highest</li><li>APAC accounts for the largest share</li></ul>	<ul style="list-style-type: none"><li>The global Home Improvement market is estimated to grow by a <b>CAGR of 4.5%</b>, reaching <b>\$1,089 bn in 2025</b>, with North America accounting for 50% market share</li><li>APAC is expected to have CAGR &gt; 4.5%</li></ul>	<ul style="list-style-type: none"><li>In 2019, the DIY Market was valued at <b>\$859 bn</b> and is expected to reach <b>\$1,138 bn by 2025</b>, corresponding to a <b>CAGR of 4.8 %</b></li><li>North America dominates the DIY market and APAC is expected to be the fastest-growing regional market</li></ul>	<ul style="list-style-type: none"><li>The global smart home market size is expected to grow from <b>\$78.3 bn to \$135.3 bn by 2025</b>, at a <b>CAGR of 9.5 %</b></li><li>Current household penetration is 9.1% and is expected to hit 21.3% by 2025</li></ul>																								
Key facts	<p><b>HVAC Global Market Size</b></p> <table><tr><th>Year</th><th>Market Size (\$ bn)</th></tr><tr><td>2019</td><td>241</td></tr><tr><td>2025</td><td>303</td></tr></table>	Year	Market Size (\$ bn)	2019	241	2025	303	<p><b>Home Improvement Global Market Size</b></p> <table><tr><th>Year</th><th>Market Size (\$ bn)</th></tr><tr><td>2019</td><td>836</td></tr><tr><td>2025</td><td>1,089</td></tr></table>	Year	Market Size (\$ bn)	2019	836	2025	1,089	<p><b>DIY Global Market Size</b></p> <table><tr><th>Year</th><th>Market Size (\$ bn)</th></tr><tr><td>2019</td><td>859</td></tr><tr><td>2025</td><td>1,138</td></tr></table>	Year	Market Size (\$ bn)	2019	859	2025	1,138	<p><b>Smart Home Global Market Size</b></p> <table><tr><th>Year</th><th>Market Size (\$ bn)</th></tr><tr><td>2019</td><td>78</td></tr><tr><td>2025</td><td>135</td></tr></table>	Year	Market Size (\$ bn)	2019	78	2025	135
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2019	78																											
2025	135																											
Growth Drivers	<ul style="list-style-type: none"><li>Growth is driven by continued spending in the <b>construction sector</b></li><li>High demand is also linked to <b>climate change</b> due to rising temperature and unpredictable climatic conditions</li><li>Growing demand for <b>energy efficient</b> solutions</li></ul>	<ul style="list-style-type: none"><li>Developed countries witnesses <b>renovation &amp; remodeling trends</b></li><li>Rising importance of the <b>appearance of consumer's surroundings and home</b>; related to sharing one's life on social media</li><li><b>Increase in socialization at home</b> including house parties and family gatherings</li></ul>	<ul style="list-style-type: none"><li>Adoption of <b>innovative</b> interior and exterior</li><li>Increasing number DIY tutorial instructions available on <b>social media</b></li><li>Advent of <b>e-commerce</b></li><li>Growing emphasis on DIY projects for <b>personalized interior designing</b></li></ul>	<ul style="list-style-type: none"><li>Increasing use of <b>internet</b></li><li>Growing adoption of <b>smart devices</b></li><li><b>Rising disposable income</b> of people in developing economies</li><li>Rising importance of <b>home monitoring</b> in remote locations</li><li>Need for <b>energy-saving solutions</b></li><li>Growing concern about <b>safety and security</b></li></ul>																								

# Targeted Customers and their Demands

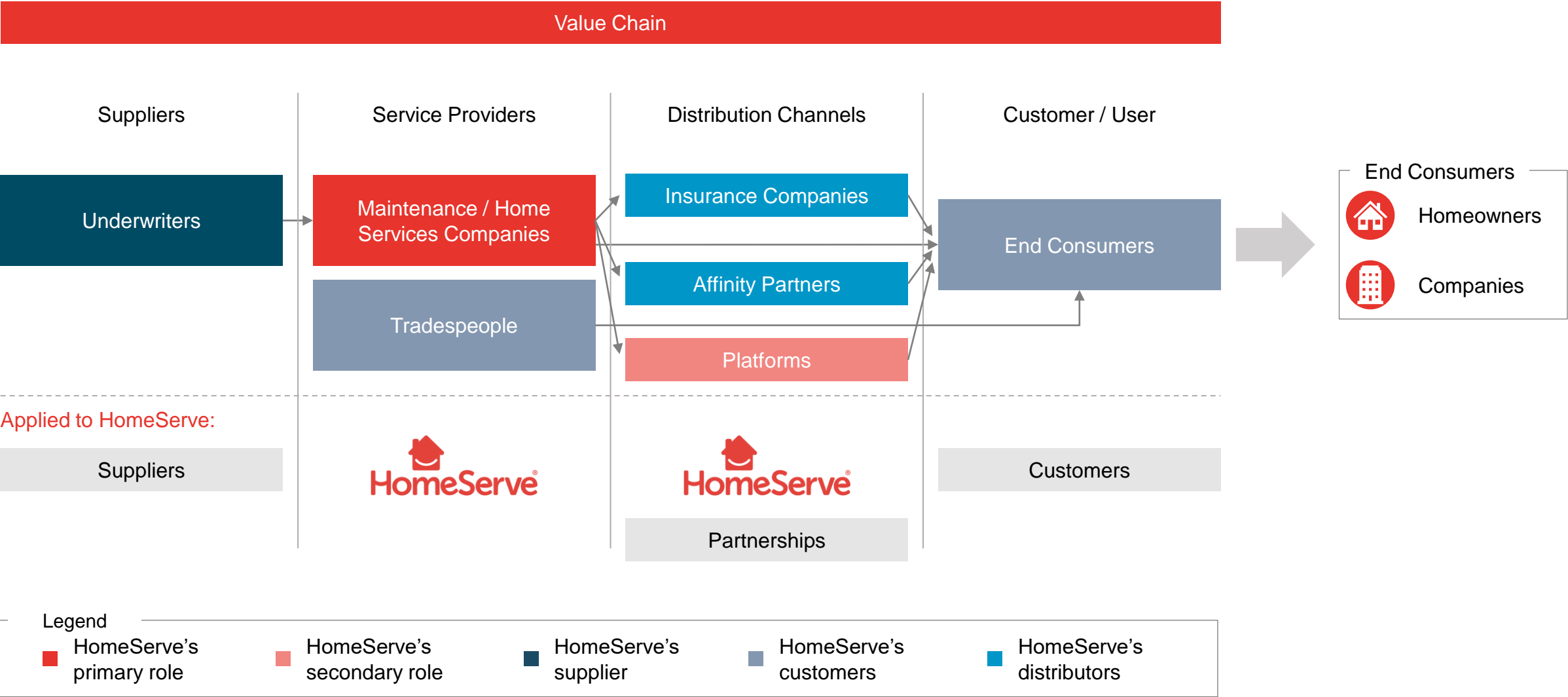
HomeServe targeted customers can be segmented into three different groups that have different characteristics and demands



Sources: HomeServe

# Value Chain

HomeServe serves both as a service provider as well as a distribution channel for trades that are simultaneously its customers



# How Private Equity has been affected by Covid-19

The general patience of the market at the moment is driven by a high uncertainty and valuation gap

The ongoing pandemic has affected the investing landscape. A recent survey conducted by the National Bureau of Economic Research indicates that PE managers believe 40% of their portfolio companies have been moderately negatively affected by Covid-19, while 10% have been deeply affected. Many of them reacted at first by focusing on a bottom-up review of their portfolio companies, updating business plans and returns, conducting stress tests, and making projections of future capital needs, all taking into account the new virus.

This, in addition to market uncertainty, generated a slowdown in deal activity. According to Pitchbook, U.S. PE deals dropped by almost 20% in 2020, while exits fell about 70% globally. Moreover, the impact was not the same for all industries, companies in the hospitality, travel, and event sector had a huge negative effect, and it will probably continue in the next future. Other sectors, such as healthcare and software remained relatively Covid-resistant by focusing on the deal flow during this period. According to Michael W. Ruben, managing director at RFE Investment Partners, the majority of Private Equity players are taking a more cautious long-game approach. The ongoing situation is a big unknown, and this amount of risk is taken into account while considering a deal. However, valuations have yet to be largely affected by the current crisis. Dennis O'Rourke (partner of Moritt Hock & Hamroff LLP) evidenced how there may be a valuation gap coming down in the next future. Sellers still expect pre-Covid multiples while PE funds don't want to pay that much. Finding the perfect solution will become harder, and deals will include complicated earn-out clauses and backend payments. Furthermore, tightening by lenders could become an additional concern for PE firms.

In this situation, the word of the day is 'patience'. PE funds do not need to rush to deploy capital. Consultants at Bain estimated that all fund types have increasingly raised capital from 2012, reaching \$2.5 trillion by the end of 2019. This means that funds have never been so rich, while assets are becoming cheaper. If governments manage to keep societies and economies together with central banks protecting the financial system, PE funds will be big drivers of whatever will come after.

# Appendix



# Appendix I | Revenue Streams

## Membership

### Intermediary Commissions

Includes commissions paid by the insurance underwriters for the obligation to sell policies, handle claims and provide administration services.



HomeServe acts as an intermediary between customers and underwriters. The company collects the cash from the membership monthly fees and keeps a percentage as a commission for selling the insurance policy.



HomeServe also receives a fee for the claims handling and administration services from the underwriters

### Home Assistance



Includes all the home assistance services (e.g. repair network access, emergency assistance) provided by HomeServe to the insured customer. The cost of the repair is covered by the insurance.

### Repair Income



HomeServe offers repair services that might go beyond the scope of the insurance coverage and are subject to separate contractual arrangements. Consequently, they are recognised as a different revenue stream.

## HVAC

### Installation Services



Includes Heating, Ventilation and Air Conditioning installations. HomeServe offers customers the opportunity to replace HVAC units as well as repair and service them.

## Home Expert

### Lead Generation



Tradespeople pay a fee to acquire a potential lead. (i.e. on Habitissimo platform, up to 4 tradespeople can bid for a lead). Habitissimo and eLocal platforms are currently using this business model.

### Web and directory



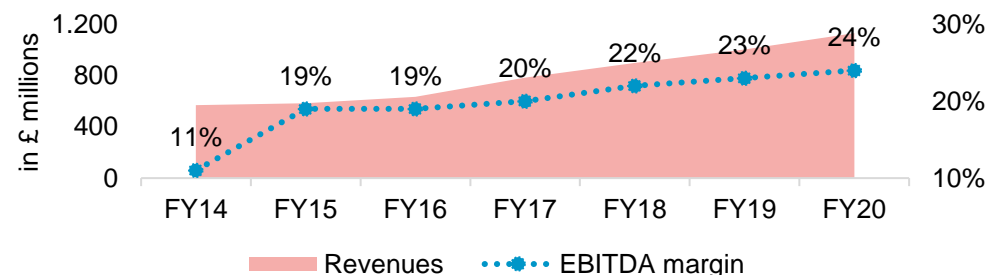
Tradespeople pay membership fees to be displayed on HomeServe's marketplaces and for directory advertising. Checktrade platform is currently using this business model.

# Appendix II | Income Statement

1

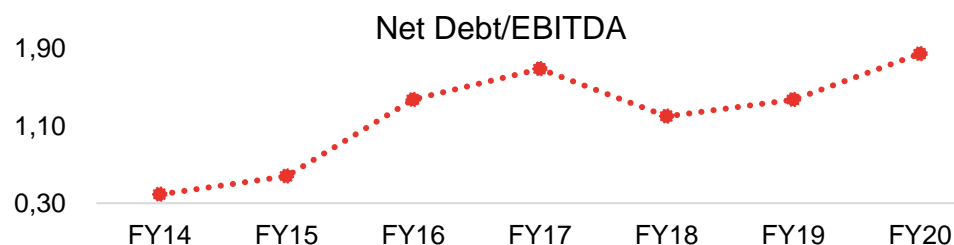
## Revenue

Increasing the income per customer and entering in new markets were the two key pillars pursued by HomeServe to increase revenues along years. This strategy mixed with the ability to lower operating expenses (as % over revenues) from 60% in FY14 to 44% in FY2020 determined an increase of the EBITDA Margin by 5% from FY15 onward.



## Net Debt/EBITDA

Net Debt/EBITDA increases along years maintaining HomeServe's target between 1-2x adjusted EBITDA. The decrease in 2018 is due to a significant debt repayment of £226.5 m.



Income Statement (in £ m)	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20
Membership	549.8	566.2	597.2	753.7	840.2	910.6	972.9
HVAC	0	0	0	0	32.2	44.8	80.9
Home Expert	0	0	0	0	18.6	40.4	71.8
Other	23.9	24.2	42.2	38.5	16.6	15.1	14.5
Inter Segment	(5.4)	(6.2)	(6.2)	(7.2)	(7.9)	(7.3)	(7.8)
<b>Revenues</b>	<b>568.30</b>	<b>584.20</b>	<b>633.20</b>	<b>785.00</b>	<b>899.70</b>	<b>1,003.60</b>	<b>1,132.30</b>
Revenues Growth		3%	8%	24%	15%	12%	13%
COGS	(298.1)	(332.5)	(356.1)	(428.0)	(475.4)	(525.5)	(589.1)
<b>Gross Profit</b>	<b>270.2</b>	<b>251.7</b>	<b>277.1</b>	<b>357.0</b>	<b>424.3</b>	<b>478.1</b>	<b>543.2</b>
Gross margin	48%	43%	44%	45%	47%	48%	48%
SG&A	(210.0)	(140.6)	(154.4)	(203.0)	(227.7)	(251.3)	(273.4)
Share of results of equity accounted investments	-	-	-	0.2	1.0	(0.3)	(2.1)
<b>EBITDA</b>	<b>60.20</b>	<b>111.10</b>	<b>122.70</b>	<b>154.20</b>	<b>197.60</b>	<b>226.50</b>	<b>267.70</b>
EBITDA margin	11%	19%	19%	20%	22%	23%	24%
Depreciation	(4.9)	(4.6)	(5.4)	(6.9)	(8)	(9.1)	(23.5)
Amortisation	(28.1)	(27.4)	(30.4)	(42.6)	(54.6)	(64.8)	(85.6)
<b>EBIT</b>	<b>27.20</b>	<b>79.10</b>	<b>86.90</b>	<b>104.70</b>	<b>135.00</b>	<b>152.60</b>	<b>158.60</b>
EBIT margin	5%	14%	14%	13%	15%	15%	14%
Investment income	0.5	0.2	0.3	0.3	0.1	0.2	0.5
Finance costs	(3.3)	(2.6)	(4.6)	(6.7)	(11.8)	(13.3)	(21.2)
<b>Profit Before Tax</b>	<b>24.40</b>	<b>76.70</b>	<b>82.60</b>	<b>98.30</b>	<b>123.30</b>	<b>139.50</b>	<b>137.90</b>
Tax	(14.4)	(20.6)	(21)	(23.9)	(27.4)	(31.2)	(32.1)
<b>Net Income</b>	<b>10.00</b>	<b>56.10</b>	<b>61.60</b>	<b>74.40</b>	<b>95.90</b>	<b>108.30</b>	<b>105.80</b>
Profit margin	2%	10%	10%	9%	11%	11%	9%

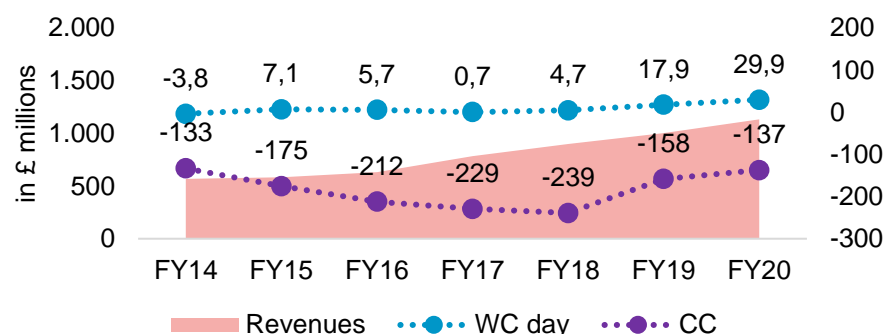


# Appendix III | Balance Sheet

1

## Day Working Capital & Cash Conversion Cycle

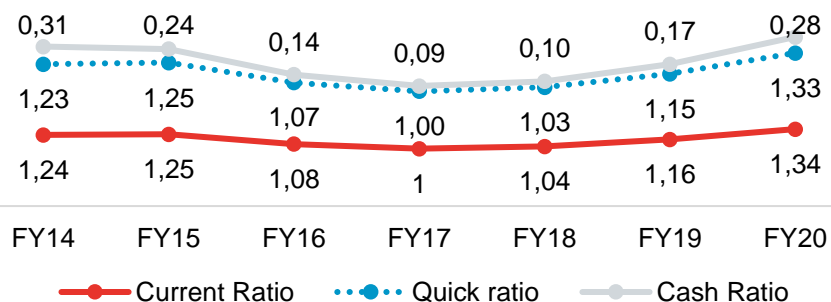
The rise in Receivables – not offset by an increase in Payables – has increased the HomeServe WC days and Cash Conversion Cycle. Despite this increase HomeServe is still be able to convert quickly its working capital in revenue.



2

## Liquidity Analysis

HomeServe liquidity position is currently good. Current Ratio and Quick Ratio are above 1 and improving. HomeServe should not have problem to meet its short term obligations in the near future.



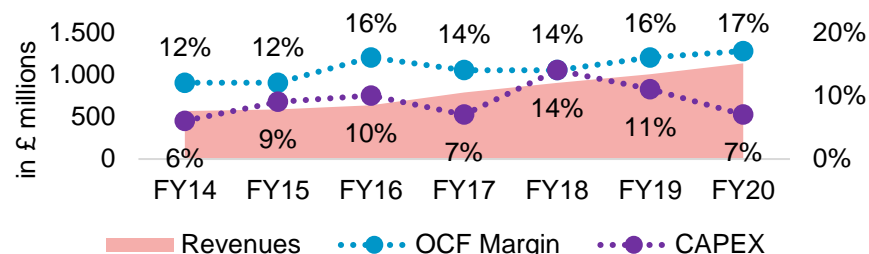
Balance Sheet ( in £ M)	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Goodwill	246.3	236.6	247.7	301.9	386.6	407.9	509.9
Other intangible assets	156.9	166.5	210	288.6	384.8	418.6	497.1
Contract costs	0	0	0	0	0	27.5	16.8
Right-of-use assets	0	0	0	0	0	0	56.8
Property, plant and equipment	30	31.3	34.9	37	39.9	42.8	42
Equity accounted investments	0	0	0	32.1	5.5	10.6	4
Other investments	0	4.4	7.8	8.5	8.7	9.2	5.6
Deferred tax assets	7.2	9.5	6.8	7.6	6.8	7.4	6
Retirement benefit assets	1.2	0.1	2.1	0.7	4.7	6.4	10.3
<b>Non-current assets:</b>	<b>441.6</b>	<b>448.4</b>	<b>509.3</b>	<b>676.4</b>	<b>837</b>	<b>930.4</b>	<b>1148.5</b>
Inventories	0.7	0.8	2.9	2.7	4.3	7	7.9
Trade and other receivables	290.6	318.8	367.7	455.1	515.7	424.6	495.4
Cash and cash equivalents	96.2	74.7	54.2	46.2	57.8	72.6	131.2
<b>Current assets:</b>	<b>387.5</b>	<b>394.3</b>	<b>424.8</b>	<b>504</b>	<b>577.8</b>	<b>504.2</b>	<b>634.5</b>
<b>Total assets</b>	<b>829.1</b>	<b>842.7</b>	<b>934.1</b>	<b>1,180.4</b>	<b>1,414.8</b>	<b>1,434.6</b>	<b>1,783</b>
Trade and other payables	(297)	(308)	(361)	(456)	(509)	(382)	(411)
Bank and other loans	0	0	(25)	(36)	(38)	(40)	(40)
Current tax liabilities	(8)	(7)	(7)	(9)	(10)	(6)	(5)
Lease liabilities	0	0	0	0	0	(1)	(14)
Obligations under finance leases	(1)	(1)	0	0	0	0	0
Provisions	(8)	0	(1)	(1)	(1)	(6)	(2)
<b>Current liabilities:</b>	<b>(313)</b>	<b>(316)</b>	<b>(394)</b>	<b>(502)</b>	<b>(557)</b>	<b>(434)</b>	<b>(472)</b>
Net current assets	74	78	31	2	20	70	162
Bank and other loans	(137)	(138)	(197)	(270)	(257)	(336)	(541)
Other financial liabilities	(3)	(2)	(6)	(14)	(23)	(23)	(52)
Deferred tax liabilities	(22)	(18)	(21)	(23)	(26)	(26)	(26)
Lease liabilities	(1)	(1)	(1)	(1)	(0)	(1)	(45)
<b>Non-current liabilities</b>	<b>(163)</b>	<b>(158)</b>	<b>(224)</b>	<b>(309)</b>	<b>(306)</b>	<b>(387)</b>	<b>(664)</b>
<b>Total liabilities</b>	<b>(476)</b>	<b>(474)</b>	<b>(618)</b>	<b>(810)</b>	<b>(863)</b>	<b>(821)</b>	<b>(1,137)</b>
Net assets	352.9	368.5	316.6	370	551.4	613.6	646.3
Equity							
Share capital	8.3	8.3	8.3	8.4	8.9	9	9
Share premium account	38.6	40.5	41.1	45.7	171.8	180.7	189.3
Share incentive reserve	14.4	15.7	16	18.3	22.1	23.3	21.9
Currency translation reserve	2.3	(9.3)	5.5	26.3	16.1	22.9	37
Investment revaluation reserve	0	0	1.8	1.8	1.8	2.3	(0.6)
Other reserves	56.3	61.1	72.1	72.2	82.2	82.2	79.2
Retained earnings	233	252.2	171.8	196.5	248.1	293	299.9
Attributable to equity holders of the parent	352.9	368.5	316.6	369.2	551	613.4	635.7
Non-controlling interests	0	0	0	0.8	0.4	0.2	10.6
<b>Total equity</b>	<b>352.9</b>	<b>368.5</b>	<b>316.6</b>	<b>370</b>	<b>551.4</b>	<b>613.6</b>	<b>646.3</b>

# Appendix IV | Cash Flow Statement

1

## OCF Margin

Cash Flow from Operating Activities remained stable over the analysed period. Despite a drop of 2% in 2014, HomeServe has been able to increase the OCF Margin. This performance is reflected on the increased profitability and income per customer over the past few years.



2

## Acquisition of subsidiaries & Cash from Investing Activ.

Strong impact depends on the buy-and build strategy pursued by the company:

- FY17: Acquisition of 70% Habitissimo, 40% of Checkatrade, 100% of USP and several small acquisitions in HVAC business unit.
- FY18 & FY19: HomeServe completed the acquisition of Checkatrade and acquired several HVAC businesses (e.g. Help-Link, Metcalfe, Gregg Mechanical and Geisel).
- FY20: HomeServe acquired 79% of eLocal and 15 new HVAC businesses.

Following the large number M&A deals that HomeServe closed and the investments made in software and book of customers, cash flows from investments activities are constantly negative.

Cash Flow Statement (in £ m)	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Operating cash flows before movements in working capital	66.4	115.5	127.8	161.0	206.6	232.6	284.5
Change in NWC	25.5	(20.9)	(6.1)	(21.1)	(42.4)	(30.4)	(44.1)
Cash generated by operations	91.9	94.6	121.7	139.9	164.2	202.2	240.4
Income taxes paid	(21.6)	(22.8)	(17.3)	(20.0)	(27.2)	(31.7)	(30.2)
Interest paid (inclusive of payments on lease liabilities)	(3.3)	(4.4)	(3.3)	(6.7)	(7.5)	(8.5)	(18.2)
<b>Net cash inflow from operating activities</b>	<b>67.0</b>	<b>67.4</b>	<b>101.1</b>	<b>113.2</b>	<b>129.5</b>	<b>162.0</b>	<b>192.0</b>
<b>Investing activities</b>							
Interest received	0.5	0.3	0.3	0.3	0.1	0.2	0.5
Proceeds on disposal of fixed assets	-	-	0.2	-	0.6	0.3	0.5
Disposal of subsidiary	-	-	-	(1.7)	-	-	-
Purchases of intangible assets	(30.2)	(46.9)	(56.8)	(50.9)	(114.3)	(99.1)	(74.3)
Contract costs	-	-	-	-	-	(7.9)	(3.9)
Purchases of property, plant and equipment	(3.4)	(5.9)	(7.1)	(7.6)	(11.0)	(9.0)	(8.2)
Acquisition of investment in associate	-	-	-	(24.7)	-	-	-
Disposal of equity accounted investments	-	-	-	-	0.4	-	8.4
Acquisition of available for sale investments	-	(4.8)	(0.5)	-	-	-	-
Acquisition of equity accounted investments	-	-	-	-	-	(5.4)	-
Acquisition of subsidiaries	(2.4)	(1.1)	(5.3)	(74.2)	(50.3)	(37.5)	(140.6)
<b>Net cash used in investing activities</b>	<b>(35.5)</b>	<b>(58.4)</b>	<b>(69.2)</b>	<b>(158.8)</b>	<b>(174.5)</b>	<b>(158.4)</b>	<b>(217.6)</b>
<b>Financing activities</b>							
Dividends paid	(36.7)	(36.9)	(137.0)	(40.3)	(50.4)	(65.0)	(73.5)
Repayment of lease principal	(0.4)	(0.3)	(0.5)	(1.0)	(0.6)	(0.6)	(12.4)
Acquisition of non-controlling interests	-	-	-	-	(3.9)	-	(7.7)
Issue of shares from the employee benefit trust	0.7	1.9	1.2	0.1	-	-	-
Purchase of own shares	-	-	-	-	-	-	(3.0)
Proceeds on issue of share capital	0.4	1.9	0.6	0.8	124.1	2.2	0.1
Costs associated with issue of share capital	-	-	-	-	(0.8)	-	-
New bank and other loans raised	-	-	75.0	103.3	221.0	174.2	-
Costs associated with new bank and other loans raised	-	-	-	-	(3.1)	(1.6)	(0.8)
Movement in bank and other loans	13.1	3.4	7.7	(29.8)	(226.5)	(98.9)	182.6
Net cash generated by financing activities	(22.9)	(30.0)	(53.0)	33.1	59.8	10.3	85.3
Net increase in cash and cash equivalents	8.6	(21.0)	(21.1)	(12.5)	14.8	13.9	59.7
Cash and cash equivalents at beginning of year	88.6	96.2	74.7	54.2	46.2	57.8	72.6
Impact of foreign exchange rate changes	(1.0)	(0.5)	0.6	4.5	(3.2)	0.9	(1.1)
<b>Cash and cash equivalents at end of year</b>	<b>96.2</b>	<b>74.7</b>	<b>54.2</b>	<b>46.2</b>	<b>57.8</b>	<b>72.6</b>	<b>131.2</b>

# Appendix I | Executive committee Members as of 31<sup>st</sup> of March 2020

## Management Statistics <sup>1)</sup>

**C-Level  
Expirience**



**International  
Experience**



**Industry  
Expertise**



**Company  
tenure >5y**



**Guillaume Huser (53)**  
CEO, HomeServe France

**5  
Years**



Joined HomeServe in 2015 as CEO of the France BU. Prior, he was President at Affinion Group and worked 13 years at AMEX.

**Key Area Of Expertise:** Financial services, business development



**John Kitzle (66)**  
CEO, HomeServe America

**8  
Years**



Joined HomeServe in 2012 before becoming CEO North America in 2018. Prior to joining HomeServe, he served as VP Affinion Group.

**Key Areas Of Expertise:** Retail, service delivery, partner management



**Mike Fairman (53)**  
CEO, Checktrade

**2  
Years**



Joined Checktrade in 2018 as CEO. Previously, he was CEO of Giffgaff, noted for its pioneering business model.

**Key Areas Of Expertise:** Digital transformation, entrepreneurial start-ups



**Stephen Phillips (53)**  
CEO, Global Partnerships

**15  
Years**



Appointed as CEO, Global Partnerships in January 2018 having led HomeServe Spain since 2005. Prior, he spent 12 years in Business Development.

**Key Areas Of Expertise:** Business development, marketing



**Greg Reed (50)**  
CEO, HomeServe UK

**8  
Years**



Joined HomeServe in 2012 and was appointed CEO UK in 2012. Previously he spent 13 years as Investment Banker at RBS and Bank of America.

**Key Areas Of Expertise:** Consumer & affinity marketing, finance, banking



**Fernando Prieto (54)**  
CEO, HomeServe Spain

**12  
Years**



Joined HomeServe Spain in 2008 and appointed as CEO of Spain in 2018. Previously, he undertook several roles in the insurance sector.

**Key Areas Of Expertise:** Insurance, marketing, business development



**Deb Dulsky (49)**  
Global CEO, HVAC

**10  
Years**



Appointed as Global CEO of HVAC in 2018 following 8 years of leadership positions at HomeServe USA. Prior to HomeServe she worked in M&A.

**Key Areas Of Expertise:** Business development, M&A, marketing

**Notes:** <sup>1)</sup> Management statistics includes all the Executive Committee; N.B following the 31<sup>st</sup> of March 2020 the executive committee has been increased by 4 further members

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